



Office of Inspector General

Office of Audits' Assignment Plan

Fiscal Year 2004

October 1, 2003 – September 30, 2004



DATE: August 27, 2003

MEMORANDUM TO: Chairman
Board of Directors
Audit Committee
Division and Office Directors
General Counsel

FROM: 
Gaston L. Gianni, Jr.
Inspector General

SUBJECT: Office of Audits' Assignment Plan for Fiscal Year 2004

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Under the Inspector General Act (IG Act) of 1978, as amended, the Office of Inspector General (OIG) is responsible for independently examining the programs and activities of the FDIC, including FDIC contractors and insured depository institutions, through audits, evaluations, investigations, and other reviews. Our work helps to ensure that the FDIC's operations are economical and efficient to deter and detect instances of fraud, waste, and abuse. The IG Act also requires that the Inspector General keep the Chairman and the Congress fully and currently informed of agency problems and corrective actions. As a tool in fulfilling these responsibilities, the OIG's Office of Audits has prepared its annual assignment plan outlining planned assignments for fiscal year 2004, which is the period October 1, 2003 through September 30, 2004.

We note that fiscal year 2004 will bring sweeping changes to the federal audit profession. The Comptroller General of the United States issued new standards in June 2003 that become effective January 1, 2004, marking the first overall revision of the standards since 1994. Our program of performance audits, attestation engagements, and evaluations will comply with the new standards. In addition to the new standards, our work will be conducted in accordance with the OIG's four "CORE" values—Communication, Objectivity, Responsibility, and Excellence—adopted to guide the organization in achieving the OIG's mission, strategic goals, and strategic objectives. We are also mindful of the issues that led to the passage of the Sarbanes-Oxley Act of 2002 and that the Act brought comprehensive reforms to the audit profession.

One strategic goal is that OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public. To achieve this goal, the OIG will contribute to ensuring the (1) protection of insured depositors, (2) safety and soundness of FDIC-supervised institutions, (3) protection of consumer rights, (4) achievement of recovery to creditors of receiverships, and (5) effective management of agency resources.

In February 2003, in the spirit of the Reports Consolidation Act of 2000, the OIG completed a risk-based assessment of the most significant management and performance challenges facing the FDIC for inclusion in the Corporation's performance and accountability report. We provided a discussion of these challenges to the FDIC's Chief Financial Officer, and the FDIC included them in the Corporation's consolidated annual report. The assignments in this plan are designed to address these challenges and are presented within that framework in the pages that follow. Further, the findings and recommendations resulting from the assignments in the plan will assist the FDIC in successfully accomplishing the goals outlined in its Corporate Annual Performance Plan and in pursuing the three corporate priorities articulated by FDIC Chairman Powell in his First Quarter Letter to Stakeholders in 2003: Stability, Sound Policy, and Stewardship.

To facilitate the reader's understanding of how our planned assignments relate to the Office of Audits' overall mission, goals, and working groups, we have included a two-part graphic in the plan. The first part of the figure, *Serving the FDIC: OIG Assignment Planning Framework*, presents the OIG's mission, a strategic goal and objective for value and impact, and the risk-based management and performance challenges linked to four Directorates in the Office of Audits: (1) Supervision and Insurance, (2) Resolution, Receivership, and Legal Services; (3) Information Assurance; and (4) Resource Management. A fifth Directorate, Corporate Evaluations, performs cross-cutting, corporate-wide, and other evaluations. The second part of the visual shows each of our planned assignments in relation to the functional areas covered by our Directorates and the management and performance challenges.

In April 2003, we provided members of the FDIC Audit Committee and members of FDIC management with a draft listing of proposed assignments. We received a number of comments in response and considered and addressed suggestions for new assignments. The input we received from the Audit Committee and other corporate management officials this year in formulating our plan has been very useful. By way of outreach and meetings conducted during the past year, we engaged in a productive dialogue with FDIC executives and managers in both headquarters and field locations to continue to identify those areas where the OIG can devote resources in the best interest of the Corporation. The resulting plan will guide our efforts. However, our planning process is ongoing and dynamic. Thus, we may alter the focus, timing, and selection of assignments to better respond to legislatively mandated priorities, congressional requests, emerging issues in our nation's financial system, and changing priorities within the FDIC.

We appreciate the Corporation's support of our efforts and look forward to a productive series of assignments during fiscal year 2004. We are committed to continuing to work cooperatively with FDIC management as it carries out its vital mission to insure deposits, regulate financial institutions, and minimize the number and cost of institutional failures. We hope to serve the FDIC, the Congress, and the American people as a driving force in the reduction of financial risk to our nation through successful accomplishment of the FDIC mission.



SERVING THE FDIC: OIG ASSIGNMENT PLANNING FRAMEWORK OFFICE OF AUDITS

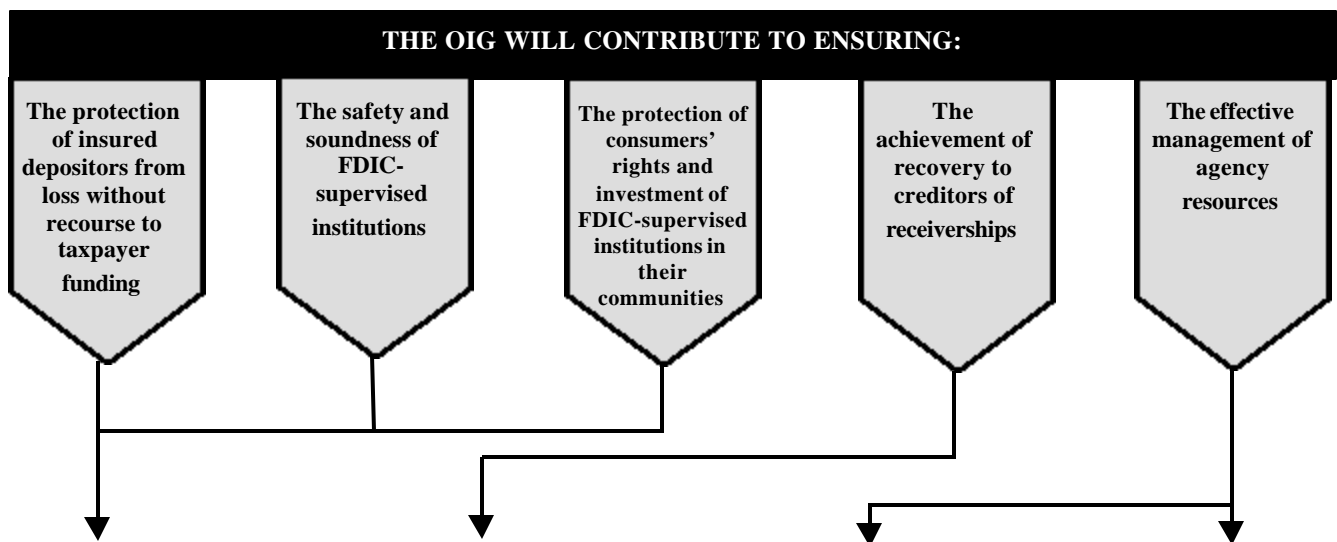
OIG MISSION

- Promotes the economy, efficiency, and effectiveness of FDIC programs and operations.
- Protects against fraud, waste, and abuse.
- Assists and augments the FDIC's contribution to the stability of, and public confidence in, the nation's financial system.

OIG STRATEGIC GOAL (Value and Impact)

OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public.

OIG STRATEGIC OBJECTIVES (Value and Impact)



RISK-BASED MANAGEMENT & PERFORMANCE CHALLENGES

<i>Supervision & Insurance</i>	<i>Resolution, Receivership, & Legal Services</i>	<i>Information Assurance</i>	<i>Resources Management</i>
<ul style="list-style-type: none">• Adequacy of Corporate Governance in Insured Depository Institutions• Protection of Consumer Interests• Management and Analysis of Risks to the Insurance Funds	<ul style="list-style-type: none">• Effectiveness of Resolution and Receivership Activities	<ul style="list-style-type: none">• Management and Security of Information Technology Resources• Transition to a New Financial Environment	<ul style="list-style-type: none">• Security of Critical Infrastructure• Assessment of Corporate Performance• Organizational Leadership and Management of Human Capital• Cost Containment and Procurement Integrity



SERVING THE FDIC: OIG ASSIGNMENT PLANNING FRAMEWORK OFFICE OF AUDITS

Supervision & Insurance

Resolution, Receivership, & Legal Services

Information Assurance

Resources Management

PLANNED ASSIGNMENTS BY MANAGEMENT & PERFORMANCE CHALLENGES

Adequacy of Corporate Governance in Insured Depository Institutions:

- Material Loss Reviews
- Examination Assessment of Management
- Effectiveness of Supervisory and Enforcement Actions
- Implementation of the Sarbanes-Oxley Act
- Minority Depository Institutions Program

Protection of Consumer Interests:

- DSC's Efforts to Address Data Security for Customer Information
- FDIC's Risk-Focused Compliance Examination Function
- FDIC's Efforts to Increase Depositor Awareness

Management and Analysis of Risks to the Insurance Funds:

- Supervision of Industrial Loan Corporations
- Examination Assessment of Capital
- Shared National Credits Program
- FDIC Risk-Related Premium System
- Assessment of Int'l Lending Risks
- DSC's Delegations of Authority to Regional and Field Offices
- Assessments Process and the Reserve Ratio

Effectiveness of Resolution and Receivership Activities:

- Marketing of Failing Insured Depository Institutions
- Retention Strategies for Failed Insured Depository Institution Employees
- Insured Depository Institution Closing Procedures
- Asset Write-Offs from Failed Insured Depository Institutions
- Proceeds from Securitization Close-Outs
- Receivership Dividend Payments
- DRR's Management of Receivership Subsidiary Assets

Management and Security of Information Technology Resources:

- Call Modernization Project
- Independent Evaluation of the FDIC's Information Security Program—2004
- Application Controls over the Risk-Related Premium System
- FDIC Certificate Authorities for Public Key Infrastructure
- DIRM's Telecommunications Program
- Application Controls for the Overarching Automation System
- Controls over the Corporate Human Resources Information System Release III
- FDIC's Capital Investment Management Review Process for Information Technology Initiatives
- Controls over the Private Branch Exchange Communications System

Transition to a New Financial Environment:

- NFE Development and Implementation
- FDIC's Management of NFE-Related Costs
- Conversion of the Walker Financial Data to NFE

Security of Critical Infrastructure:

- Implementation of Physical Security Policies

Assessment of Corporate Performance:

- Follow-Up Evaluation of the FDIC's Corporate Planning Cycle
- FDIC's Use of Performance Measures

Organizational Leadership and Management of Human Capital:

- Evaluation of Human Capital

Cost Containment and Procurement Integrity:

- Contract Pre-Award Reviews
- Contractor Billing Reviews
- Management of the Virginia Square Phase II Building Project
- Acquisition Planning
- Dental Insurance Eligibility
- Contract Management and Oversight Processes
- Cash Disbursement Process
- Implementation of E-Government Principles

Corporate Evaluations

Note: Acronyms are defined within the text of the planned assignments.

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Federal Deposit Insurance Corporation
Office of Inspector General
Office of Audits

Overview

The Office of Inspector General (OIG) is a key component in the Federal Deposit Insurance Corporation's (FDIC) risk management process. We continually strive to balance the risk-based requirements for professional audit and evaluation services with the resources available to accomplish our mission. Our fiscal year 2004 *Office of Audits' Assignment Plan* reflects how we plan to achieve this balance under the assumption of relative stability in the FDIC's mission and environment. However, as history attests, the future is uncertain, and our real challenge will be to provide value-added services in a dynamic environment characterized by ever-present risks to the nation's financial system.

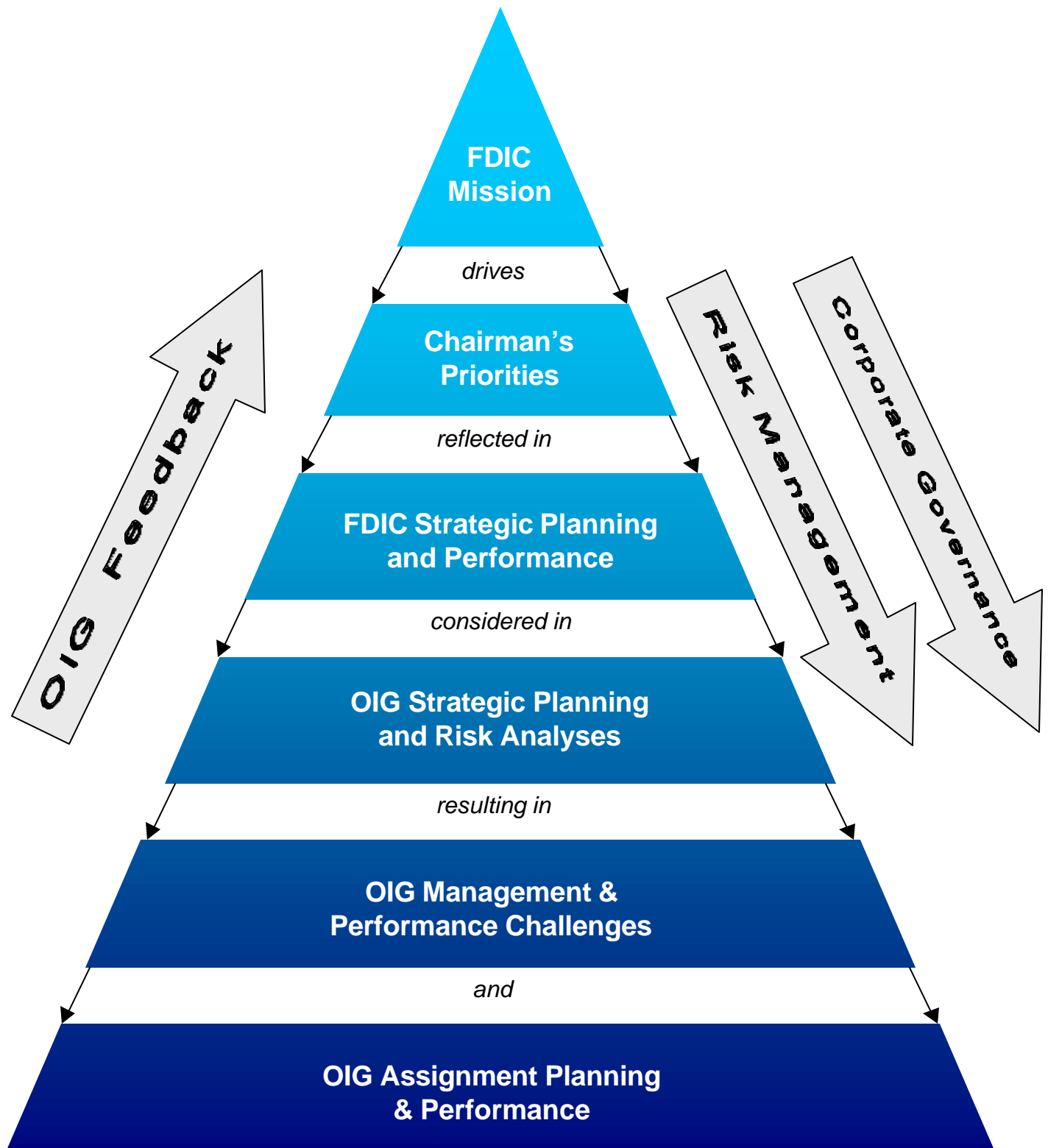
The OIG's value-added process, which is depicted on page 3, shows the many considerations that impact our determination of the assignments for the coming fiscal year. First and foremost, we are mindful of the FDIC's mission, the Chairman's priorities, and the Corporation's strategic planning and performance. Consideration of these elements is reflected in the OIG's Strategic Planning and Risk Analyses, Management and Performance Challenges, and Assignment Planning and Performance. In analyzing the risks associated with these elements, we have identified 10 management and performance challenges and the types of assignments needed to best address those challenges. Our assignments will yield results that, when communicated back to FDIC management, are intended to enhance FDIC corporate governance and contribute to the Corporation's overall risk management activities. The value-added process also takes into consideration the corporate governance and risk management activities that occur in a dynamic environment. Accordingly, the OIG is constantly attuned to emerging issues and changes in the significance of known issues.

The assignments in our plan are presented within the framework of the following management and performance challenges:

1. Adequacy of Corporate Governance in Insured Depository Institutions
2. Protection of Consumer Interests
3. Management and Analysis of Risks to the Insurance Funds
4. Effectiveness of Resolution and Receivership Activities
5. Management and Security of Information Technology Resources
6. Security of Critical Infrastructure
7. Transition to a New Financial Environment
8. Assessment of Corporate Performance
9. Organizational Leadership and Management of Human Capital
10. Cost Containment and Procurement Integrity

The Assignment Plan lists and briefly describes—with a statement of risk and planned objectives—each of the 46 assignments that we plan to start during fiscal year 2004 by management and performance challenge and estimated start date. At the end of each management and performance section, ongoing assignments are listed along with the stated objectives. A final section shows planned assistance on the annual audits of the Corporation's financial statements. Additionally, the appendix lists all assignments by Office of Audits Directorate and provides a point of contact for each. In the spirit of the Reports Consolidation Act of 2000, in January 2004, the OIG will again complete a risk-based assessment of the most significant management and performance challenges facing the FDIC. As a result, the OIG's assignment planning and performance activities are subject to change to ensure that OIG feedback is given on the issues of highest significance to the Corporation.

Figure: OIG Value-Added Process



Adequacy of Corporate Governance in Insured Depository Institutions

A number of well-publicized announcements of business failures, including financial institution failures, have raised questions about the credibility of accounting practices and oversight in the United States. These recent events have increased public concern regarding the adequacy of corporate governance and, in part, prompted passage of the Sarbanes-Oxley Act of 2002. The public's confidence in the nation's financial system can be shaken by deficiencies in the adequacy of corporate governance in insured depository institutions. For example, the failure of senior management, boards of directors, and auditors to effectively conduct their duties has contributed to some recent financial institution failures. In certain cases, Board members and senior management engaged in high-risk activities without proper risk management processes, did not maintain adequate loan policies and procedures, and circumvented or disregarded various laws and banking regulations. In other cases, independent public accounting firms rendered unqualified opinions on the institutions' financial statements when, in fact, the statements were materially misstated. To the extent that financial reporting is not reliable, the regulatory processes and FDIC mission achievement (that is, ensuring the safety and soundness of the nation's financial system) can be adversely affected. For example, essential research and analysis used to achieve the supervision and insurance missions of the Corporation can be complicated and potentially compromised by poor quality financial reports and audits. The insurance funds could be affected by financial institution and other business failures involving financial reporting problems. In the worst case, illegal and otherwise improper activity by management of financial institutions or their boards of directors can be concealed, resulting in potential significant losses to the FDIC insurance funds.

The Corporation has initiated various measures designed to mitigate the risk posed by these concerns, such as reviewing the bank's board activities and ethics policies and practices and reviewing auditor independence requirements. In addition, the FDIC reviews the financial disclosure and reporting obligations of publicly traded state non-member institutions. The FDIC also reviews their compliance with other Securities and Exchange Commission regulations and the Federal Financial Institutions Examination Council-approved and recommended policies to help ensure accurate and reliable financial reporting through an effective external auditing program. Other corporate governance initiatives include the FDIC's issuing Financial Institution letters, allowing bank directors to participate in regular meetings between examiners and bank officers, maintaining a "Director's Corner" on the FDIC Web site, and the expansion of the Corporation's "Director's College" program. The adequacy of corporate governance will continue to require the FDIC's vigilant attention.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes five (or more) audits.

Material Loss Reviews

The OIG of the respective primary federal regulator is required by the FDIC Improvement Act of 1991 to perform a material loss review (MLR) and report on insured depository institutions that incur losses to the deposit insurance funds that exceed more than either \$25 million or 2 percent of the institution's assets. MLRs must be completed within 6 months from the time it is determined that a failure or payment of financial assistance will result in a material loss to the insurance funds.

The objectives of these reviews, which are statutorily required should the failure of an FDIC-supervised insured depository institution result in a material loss, will be to determine (1) the causes of the material loss and (2) the adequacy of the federal regulator's supervision of the institution, including implementation of prompt corrective action.

MLRs take priority over other audits because of the legislatively mandated 6-month completion deadlines; therefore, these reviews have the potential to impact other ongoing and planned work.

Estimated Assignment Start: As Required

Examination Assessment of Management

Recent corporate failures and the passage of the Sarbanes-Oxley Act have emphasized the importance of sound corporate governance. According to the Division of Supervision and Consumer Protection's (DSC) Manual of Examination Policies, the quality of management is probably the single most important element in the successful operation of a bank.

"Management" includes the directors on the board, who are elected by the shareholders, and executive officers, who are appointed to their positions. Examiner guidance in DSC Examination Modules addresses various control and performance standards in evaluating a bank's management.

The objective of this audit will be to determine whether, as part of safety and soundness examinations, DSC adequately assesses institution management, including management controls, corporate structure and director independence, internal and external audits, and other aspects of corporate governance.

Estimated Assignment Start: 1st Quarter FY 2004

Effectiveness of Supervisory and Enforcement Actions

The FDIC's Board of Directors has been given broad enforcement powers under section 8 of the Federal Deposit Insurance Act. The Board has the power to terminate insurance (section 8(a)); to issue Cease and Desist Actions (section 8(b)); and, if deemed necessary, to immediately invoke a temporary Cease and Desist Action (section 8(c)). The Board also has the power to suspend or remove a bank officer or director or prohibit participation by others in bank affairs when certain criteria can be established (sections 8(e) and (g)). The

FDIC may assess Civil Money Penalties for the violation of any law or regulation, any final order or temporary order issued, any condition imposed in writing by the appropriate federal banking agency in connection with the approval of any application, and any written agreement between a depository institution and federal banking agency. The Board of Directors has delegated these supervisory and enforcement powers to various levels within DSC and has retained certain authorities for itself.

The objectives of this audit will be to determine whether (1) timeframes can be shortened for supervisory and enforcement actions initiated by DSC and the FDIC Legal Division, (2) the actions comprehensively address the specific supervisory concerns of each case, and (3) the supervisory and enforcement actions achieve DSC's intended purposes before being rescinded, recognizing the role of the U.S. Department of Justice in the supervisory and enforcement action process, when applicable.

Estimated Assignment Start: 2nd Quarter FY 2004

Implementation of the Sarbanes-Oxley Act

On July 30, 2002, the Sarbanes-Oxley Act (the Act) of 2002 was signed into law. The Act imposes new auditor independence, reporting, and corporate governance requirements on all publicly traded companies, including insured depository institutions and bank holding companies. Certain provisions of the Act also affect insured institutions subject to section 36 of the Federal Deposit Insurance Act, which include all insured depository institutions with total assets of \$500 million or more.

On March 5, 2003, the FDIC issued Financial Institution Letter (FIL) number FIL-17-2003, *Effects of the Sarbanes-Oxley Act of 2002 on Insured Depository Institutions*, to provide comprehensive guidance on the sound corporate governance practices set forth in the Act, such as how such practices may benefit all banking organizations (which includes non-public insured depository institutions).

The objective will be to determine whether DSC examinations adequately assess and evaluate whether institutions have appropriately implemented the new auditor independence, reporting, and corporate governance requirements of the Sarbanes-Oxley Act.

Estimated Assignment Start: 3rd Quarter FY 2004

Minority Depository Institutions Program

Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 requires the Secretary of the Treasury to consult with the Director of the Office of Thrift Supervision and the Chairman of the FDIC Board of Directors to determine the best methods for preserving and encouraging minority ownership of depository institutions. To ensure that all Minority Depository Institutions (MDI) are able to participate in the program, the FDIC maintains a list of federally insured MDIs. In

addition, the FDIC has designated a national coordinator and regional coordinators. At least annually, regional coordinators are to contact each MDI directly supervised by the FDIC in their respective regions to discuss the FDIC's efforts to promote and preserve minority ownership of financial institutions and offer to have a member of regional management meet with the institution's board of directors to discuss issues of interest.

The objective of this audit will be to determine whether DSC's efforts to implement the April 2002 FDIC Policy Statement regarding MDIs and measure its benefits are adequate.

Estimated Assignment Start: 4th Quarter FY 2004

Protection of Consumer Interests

The FDIC is legislatively mandated to enforce various statutes and regulations regarding consumer protection and civil rights with respect to state-chartered, non-member banks and to encourage community investment initiatives by these institutions. Some of the more prominent laws and regulations in this area include the Truth in Lending Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, Fair Housing Act, Home Mortgage Disclosure Act, Equal Credit Opportunity Act, Community Reinvestment Act of 1977, and Gramm-Leach-Bliley Act (GLBA).

The Corporation accomplishes its mission related to fair lending and other consumer protection laws and regulations by conducting compliance examinations, taking enforcement actions to address unsafe or unsound banking practices and compliance violations, encouraging public involvement in the compliance process, assisting financial institutions with fair lending and consumer compliance through education and guidance, and providing assistance to various parties within and outside of the FDIC.

The FDIC's examination and evaluation programs must assess how well the institutions under its supervision manage compliance with consumer protection laws and regulations and meet the credit needs of their communities, including low- and moderate-income neighborhoods. The FDIC must also work to issue regulations that implement federal consumer protection statutes both on its own initiative and together with the other federal financial institution regulatory agencies. One important focus will be the Gramm-Leach-Bliley Act, as the Corporation must ensure it has a quality program to examine institution compliance with the privacy and other provisions of the Act.

The Corporation's community affairs program provides technical assistance to help banks meet their responsibilities under the Community Reinvestment Act. The current emphasis is on financial literacy, aimed specifically at low- and moderate-income people who may not have had banking relationships. The Corporation's "Money Smart" initiative is a key outreach effort. The FDIC must also continue efforts to maintain a Consumer Affairs program by investigating consumer complaints about FDIC-supervised institutions and answering consumer inquiries regarding consumer protection laws and banking practices.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes two audits and one evaluation.

DSC's Efforts to Address Data Security for Customer Information

The Gramm-Leach-Bliley Act was enacted on November 12, 1999. In addition to reforming the financial industry, GLBA addressed concerns relating to consumer financial privacy. While GLBA has created new opportunities for financial supermarkets consisting of affiliated banking, securities, and insurance institutions, it exposes personal customer data to the possibility of misuse.

Title V of GLBA sets forth major privacy provisions under two new subtitles. Subtitle A of Title V provides a mechanism to protect the confidentiality of a consumer's personal financial information and the power to choose how personal information may be used by financial institutions without undermining the benefits resulting from enhanced affiliations and competition. Subtitle B establishes new penalties to prevent pretext calling, which is a deceptive practice used by unscrupulous persons to determine the financial assets of consumers.

The objective of this audit will be to determine whether DSC's examinations adequately address data security for customer information maintained by FDIC-supervised institutions.

Estimated Assignment Start: 2nd Quarter FY 2004

FDIC's Risk-Focused Compliance Examination Function

The FDIC has revised its approach to examining institutions for compliance with consumer protection laws and regulations. Under the new approach, FDIC compliance examinations will combine the risk-based examination process it now employs with an in-depth evaluation of an institution's compliance management system, resulting in a top-down, risk-focused approach to examinations. The new examination approach recognizes that the banking industry's compliance responsibilities continue to grow and become more complex with changes in financial products and services and in their delivery systems. Moreover, by focusing on the institution's compliance program, emphasis is placed on the institution's responsibility to ensure it complies with consumer protection laws.

The objectives of this audit will be to determine whether: (1) the revised compliance examination process is resulting in examinations that are adequately planned to address the risk that institutions' compliance programs may pose and (2) the new process provides information on the consumer protections laws and regulations reviewed and the results of those reviews.

Estimated Assignment Start: 4th Quarter FY 2004

FDIC's Efforts to Increase Depositor Awareness (Evaluation)

The FDIC advises depositors and financial institution staff on the application of deposit insurance rules and responds to complex deposit insurance questions received from the public and the banking industry through the FDIC Call Center, the Internet, and regular mail. The FDIC currently provides deposit insurance education and educational tools to insured financial institutions.

The objective of this evaluation will be to determine the adequacy of the FDIC's efforts to increase depositor awareness.

Estimated Assignment Start: 4th Quarter FY 2004

Management and Analysis of Risks to the Insurance Funds

A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds do not require resuscitation by the U.S. Treasury. Achieving this goal is a considerable challenge given that the FDIC supervises only a portion of the insured depository institutions. The identification of risks to non-FDIC supervised institutions requires effective communication and coordination with the other federal banking agencies. The FDIC engages in an ongoing process of proactively identifying risks to the deposit insurance funds and adjusting the risk-based deposit insurance premiums charged to the institutions.

Recent trends and events continue to pose risks to the funds. From January 1, 2002 to March 31, 2003, 11 banks and 1 thrift institution have failed, and the potential exists for additional failures. While some failures may be attributable primarily or in part to economic factors, bank mismanagement and fraud have also been factors in the most recent failures. The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking, new banking products and complex asset structures, and electronic banking. The industry's growing reliance on technologies, particularly the Internet, has changed the risk profile of banking. The consolidations that may occur among banks, securities firms, insurance companies, and other financial services providers resulting from the Gramm-Leach-Bliley Act pose additional risks to the FDIC's insurance funds. The Corporation's risk-focused examination process must operate to identify and mitigate these risks and their real or potential impact on financial institutions to preclude adverse consequences to the insurance funds.

Another risk to the insurance funds results from bank mergers that have created "megabanks," or "large banks," which are defined as institutions with assets of over \$25 billion. For many of these institutions, the FDIC is the insurer but is not the primary federal regulator. Megabanks offering new or expanded services also present challenges to the FDIC. The failure of a megabank, for example, along with the potential closing of closely affiliated smaller institutions, could result in such losses to the deposit insurance funds as to require significant increases in premium assessments from an institution.

Further, because of bank mergers and acquisitions, many institutions hold both Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) insured deposits, obscuring the difference between the funds. There is ongoing consideration of merging the two insurance funds with the perceived outcome being that the merged fund would not only be stronger and better diversified but would also eliminate the concern about a deposit insurance premium disparity between the BIF and the SAIF. Assessments in the merged fund would be based on the risk that institutions pose to that fund. The prospect of different premium rates for identical deposit insurance coverage would be eliminated. Also, insured institutions would no longer have to track their BIF and SAIF deposits separately, resulting in cost savings for the industry. The Corporation has worked hard to bring about deposit insurance reform, and the OIG supports the FDIC's continued work with the banking community and the Congress in the interest of eventual passage of reform legislation.

Another risk to the insurance funds relates to the designated reserve ratio. As of March 31, 2002, the BIF reserve ratio was at 1.23 percent, the first time since 1995 that it had fallen below the statutorily mandated designated reserve ratio for the deposit insurance funds of 1.25 percent. (If the BIF ratio is below 1.25 percent, in accordance with the Federal Deposit Insurance Act, the FDIC Board of Directors must charge premiums to banks that are sufficient to restore the ratio to the designated reserve ratio within 1 year. The Corporation must maintain or exceed the designated reserve ratio, as required by statute.) By June 30, 2002, the BIF reserve ratio was at 1.26 percent, slightly above the mandated reserve ratio. As of December 31, 2002, the BIF ratio was at 1.27 percent.

The process for setting deposit insurance premiums, which is closely related to the above discussion of the designated reserve ratio, represents yet another significant risk to the insurance funds. Insurance premiums are not generally assessed based on risk but rather the funding requirements of the insurance funds. This approach has the impact of assessing premiums during economic downturns when banks are failing and are likely not in the best position to afford the premiums. Also, numerous “free rider” institutions have benefited from being able to sharply increase insured deposits without contributions to the insurance funds commensurate with this increased risk. This situation can occur because the designated reserve ratio has not been breached, thereby triggering across-the-board premiums. Current deposit insurance reform proposals include provisions for risk-based premiums to be assessed on a more regularly scheduled basis than would occur using the existing approach. Risk-based premiums can provide the ability to better match premiums charged to institutions with related risk to the insurance funds.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes six audits and one evaluation.

Supervision of Industrial Loan Corporations (Evaluation)

While the Federal Reserve is the primary federal regulator of bank holding companies, some institutions do not qualify as banks under the definition of the Bank Holding Company Act (BHCA), and their holding companies are exempt from complying with the provisions of the Act. If there are transactions between the parent company and the financial institution, the institution’s primary federal regulator may not be cognizant of all of the implications resulting from these transactions, because there is no federal regulator examining the activities of the holding company. Industrial Loan Corporations (ILC) are not subject to the activity limitations contained in the BHCA. The FDIC does have the authority to examine any affiliate of an ILC, including its parent company, as may be necessary to determine the relationship between the ILC and the affiliate and to determine the effect of such a relationship on the ILC.

The objective of this review will be to evaluate the FDIC’s approach to assessing the risks that ILCs and their respective parent holding companies pose to banking operations and the insurance funds.

Estimated Assignment Start: 1st Quarter FY 2004

Examination Assessment of Capital

Bank capital performs several very important functions. It absorbs losses, promotes public confidence, restricts excessive asset growth, and provides protection to depositors and the FDIC insurance funds. Placing owners at significant risk of loss should the institution fail helps to minimize the potential "moral hazard" of deposit insurance. As the insuring agency whose primary purpose is the protection of depositors, the FDIC has a direct financial stake in bank capital's function of protecting the FDIC's insurance funds. Consequently, the FDIC has traditionally placed a great deal of attention in its examination and supervisory programs on institutions' capital positions.

The objective of this audit will be to determine whether DSC adequately assesses institution capital as part of the safety and soundness examination process.

Estimated Assignment Start: 2nd Quarter FY 2004

Shared National Credits Program

The Shared National Credits (SNC) Program is an interagency initiative administered jointly by the FDIC, Federal Reserve Board, and Office of the Comptroller of the Currency. The program was established in the 1970s to ensure consistency among the three federal banking regulators in classifying large syndicated credits. SNCs represent a significant portion of commercial and industrial loan portfolios for many large banks. Each SNC is reviewed annually at its agent bank or a designated review bank, and the quality rating assigned by examiners is reported to all participating banks. These ratings are subsequently used during all examinations of participating banks, thus avoiding duplicate reviews of the same loan and ensuring consistent treatment with regard to regulatory credit ratings.

The objective of this audit will be to determine jointly with the Treasury and Federal Reserve OIGs whether this program adequately assesses the risks to the deposit insurance funds from large syndicated loans.

Estimated Assignment Start: 3rd Quarter FY 2004

FDIC Risk-Related Premium System

The FDIC Board of Directors reviews BIF and SAIF premium rates semiannually. The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the BIF or the SAIF. To assess premiums on individual institutions, the FDIC uses the Risk-Related Premium System (RRPS) to assign each insured institution to one of three capital groups and to one of three supervisory subgroups for the purposes of determining an assessment risk classification. Call Report data and Thrift Financial Reports are used in this process. The model identifies institutions with atypically high-risk profiles among those in the best-rated category to determine whether there are unresolved supervisory concerns regarding the risk management practices of these institutions. (This audit will be performed

concurrently with the Application Controls over the Risk-Related Premium System audit (see page 22) to minimize duplication of effort.)

The objective of this audit will be to determine whether the system used by the Division of Insurance and Research for charging insurance premiums is adequately tied to risks identified in recent examinations.

Estimated Assignment Start: 3rd Quarter FY 2004

Assessment of International Lending Risks

The international banking activities of U.S. banks are supervised by the Office of the Comptroller of the Currency (OCC), the FDIC, and the Federal Reserve System as well as by several state banking agencies. The agencies evaluate, among other things, the quality and liquidity of each bank's foreign exposures to determine their effect on the solvency and overall condition of the bank. Because of the globalization of the world's financial and capital markets, increasing risks are being placed on the nation's banks that choose to invest in foreign activities. In 1979, the OCC, FDIC, and Federal Reserve Board established the Interagency Country Exposure Review Committee to ensure consistent treatment of the transfer risk associated with banks' foreign exposures to both public and private sector entities.

The overall objective of this audit will be to determine whether DSC, in conjunction with the FDIC's Division of Insurance and Research and Legal Division, and other banking agencies, has developed adequate steps to identify, monitor, and assess the risks to domestically chartered banks that conduct international activities.

Estimated Assignment Start: 4th Quarter FY 2004

DSC's Delegations of Authority to Regional and Field Offices

The Board of Directors approved revisions to Part 303 of the FDIC Rules and Regulations on December 3, 2002. The delegations of authority were removed from the regulation to further streamline the FDIC's decision-making process for filings and promote greater flexibility to the DSC Director and General Counsel to make future changes in delegations of authority. Technical Part 303 revisions were also required as a result of the reorganization of the Corporation's supervision and compliance divisions into DSC as well as other matters. Also, as part of DSC's continuing Process Redesign initiative, DSC has decided to authorize regional director discretion to delegate signature authority to risk management field supervisors for several management functions previously performed at the regional office level.

The objective of this audit will be to determine whether DSC's Delegations of Authority to its Regional and Field Offices are working as intended.

Estimated Assignment Start: 4th Quarter FY 2004

Assessments Process and the Reserve Ratio

The current assessment system used by the BIF and the SAIF has its roots in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. FDICIA directed the FDIC to implement a risk-based insurance system. The Act also required the FDIC to maintain each fund at no less than the designated reserve ratio—that is, a ratio of mandated reserves to insured deposits of 1.25 percent. Currently, 92 percent of FDIC-insured institutions pay no deposit insurance assessments. The dollar amount of assessments collected in 2002 was approximately \$89 million. However, if a large institution (or institutions) fails, the FDIC could be required to begin charging premiums to a larger number of institutions.

The objectives of this audit will be to determine whether: (1) the Division of Finance has proper controls in place to accurately calculate, collect, and process assessments of financial institutions and (2) the FDIC has properly determined the reserve ratio.

Estimated Assignment Start: 4th Quarter FY 2004

Ongoing Assignment

Reliance on State Banking Supervisors

This is a joint review with the Federal Reserve Board OIG. The overall objective of this audit will be to identify and preliminarily assess the policies, procedures, and processes related to the FDIC's reliance on state banking supervisors' examinations. Upon completion of the preliminary assessment, we will determine the objectives, scope, and timing of any detailed audit work that we plan to perform in this area. Due to the number of state and territorial banking departments and relative complexity of this project, we may determine that more than one audit is necessary to fully assess this area.

Effectiveness of Resolution and Receivership Activities

One of the FDIC's most important corporate responsibilities is planning and efficiently handling the franchise marketing of failing FDIC-insured institutions and providing prompt, responsive, and efficient resolution of failed financial institutions. These activities maintain confidence and stability in our financial system.

The Division of Resolutions and Receiverships (DRR) has outlined primary goals for four business lines (listed below) that are relevant to the three major phases of its work: Pre-Closing, Closing, and Post-Closing of failing or failed institutions. Each is accompanied by significant challenges:

1. Deposit Insurance. DRR must provide customers of failed financial institutions with timely access to their insured funds and financial services. A significant challenge in this area is to ensure that FDIC deposit insurance claims and payment processes are prepared to handle large institution failures.
2. Resolutions. As DRR seeks to resolve failed institutions in the least costly manner, its challenges include improving the efficiency of contingency planning for institution failures and improving internal FDIC communication and coordination as well as communication with the other primary federal regulators. This will help ensure timely access to records and optimal resolution strategies.
3. Receivership Management. DRR's goal is to manage receiverships to maximize net return toward an orderly and timely termination and provide customers of failed institutions and the public with timely and responsive information. Related challenges include improving the efficiency of the receivership termination process, improving claims processing, continual assessment of recovery strategies, improving investigative activities, and charging receiverships for services performed under the Receivership Management Program (such as service costing).
4. Employees. DRR employees need to possess the resources, skills, and tools to perform the mission of the division. One related challenge is to ensure that DRR personnel have sufficient legal support for decision-making.

Our planned work for FY 2004 includes seven audits designed to offer improvements to the Resolutions, Receivership Management, and Employees business line functions.

Marketing of Failing Insured Depository Institutions

DRR is charged with resolving financial institutions in the process of failing, which it accomplishes through its resolution process. The marketing strategy chosen should represent the best method available to resolve a failing institution at the least cost. Broad marketing plans help ensure that all qualified parties are provided an opportunity to solicit bids, thus maximizing the potential for identifying an acquirer of a failing institution.

The objective of this audit will be to determine whether DRR adequately markets failing insured depository institutions to all known qualified and interested bidders.

Estimated Assignment Start: 1st Quarter FY 2004

Retention Strategies for Failed Insured Depository Institution Employees

According to DRR's Failed Financial Institution Closing Manual, the Receiver-in-Charge should make a determination as soon as possible as to the employment needs of the receivership. Once the determination is made, discussions regarding the hiring of temporary employees should be held with the personnel department of the Dallas Field Operations Branch.

The objectives of this audit will be to determine whether DRR's decisions for retaining and paying failed institution employees who assist in the liquidation process are reasonable and adequately supported.

Estimated Assignment Start: 1st Quarter FY 2004

Insured Depository Institution Closing Procedures

The proper closing of a bank is the starting point for gathering records that are vital to other FDIC processes including asset liquidation, settlement of depositor claims, and pursuit of legal investigations. The FDIC as receiver is responsible for settling the affairs of the closed financial institution, such as balancing the accounts of the institution immediately after closing, transferring certain assets and liabilities to the new owner, and determining the exact amount of payment due to the acquirer. During bank closings, representatives from numerous FDIC divisions must work together to form an effective closing team. Because of the FDIC's role as insurer and receiver, the accuracy of the opening balances is very important because the FDIC's ultimate goal is to minimize losses to the insurance funds.

The objectives of this audit will be to determine whether (1) opening accounting entries and subsequent accounting adjustments in the liquidation books were properly supported by failed institution records and (2) opening inventories of assets were adequately supported.

Estimated Assignment Start: 3rd Quarter FY 2004

Asset Write-Offs from Failed Insured Depository Institutions

When reasonable attempts to recover assets have been unsuccessful and the Account Officer believes that additional expenditure of FDIC resources are unjustified, the Account Officer may request that the assets be written off. The asset file must contain adequate documentation to demonstrate that a reasonable attempt to recover the asset has been made. If an asset is refused or returned to the FDIC by a contingency fee attorney or collection agency because the likelihood of recovery is remote, the Account Officer should request authority from the appropriate level of delegated authority to write off the asset. Additionally, the Asset

Disposition Manual authorizes the write-off of any asset that is categorized as non-discretionary, regardless of book value as defined.

The objective of this audit will be to determine whether decisions to write off assets from failed insured depository institutions were properly justified and adequately supported.

Estimated Assignment Start: 3rd Quarter FY 2004

Proceeds from Securitization Close-Outs

A securitization involves selling securities to investors that are collateralized by various types of real estate loans. In an effort to rapidly sell large amounts of loans while obtaining the highest value, receivership loans are pooled together as collateral to back securities sold to investors in the secondary market. This process results in mortgage-backed securities, or pass-through certificates. The FDIC has been able to sell large amounts of loans by establishing a credit enhancement reserve fund that consists of monies set aside from the loan sale proceeds to reduce the investors' exposure to loss. However, once a securitization transaction becomes effective, the FDIC loses direct control over the assets, thereby increasing the risk that the FDIC's interests are not adequately protected. Further, with the creation of a securitization, reserve funds worth tens of millions of dollars are created that are also out of the FDIC's direct control.

The objective of this audit will be to determine whether the proceeds received from closed out securitization transactions were accurate and adequately supported.

Estimated Assignment Start: 4th Quarter FY 2004

Receivership Dividend Payments

When a financial institution is closed and the FDIC is appointed as receiver, one of the FDIC's responsibilities is to sell the institution's assets to pay the depositors and the institution's creditors. If there is any excess cash generated by the disposition of these assets (less disposition cost and reserves met), then a dividend may be declared and distributed to proven claimants. In accordance with the Federal Deposit Insurance Act, 12 U.S.C. 1821(d)(11)(A), all receiverships established after August 10, 1993 must distribute dividends.

The objective of this audit will be to determine whether receivership dividends paid by the FDIC are properly authorized and adequately supported.

Estimated Assignment Start: 4th Quarter FY 2004

DRR's Management of Receivership Subsidiary Assets

DRR's Subsidiary Management Branch is responsible for the management of the FDIC's interests in subsidiary corporations, joint ventures, partnerships, and other equity interests acquired from failed institutions. This responsibility includes the management and resolution of all assets held by such corporations or interests. The resolution strategy must be consistent

with maintaining this corporate separateness while striving to maximize recovery from disposition of the subsidiary and its attendant assets in the most expeditious manner. For the FDIC to maximize its recovery from its investment in a subsidiary, it must determine whether to dissolve or keep the subsidiaries intact. The Asset Disposition Manual requires the completion of the Subsidiary Due Diligence Review Checklist as supporting documentation.

The objective of this audit will be to determine whether the FDIC adequately values and protects its interest in receivership subsidiary assets.

Estimated Assignment Start: 4th Quarter FY 2004

Ongoing Assignments

Management and Disposition of Receivership Assets

DRR's mission is to plan for and resolve failing FDIC-insured depository institutions promptly, efficiently, and responsively to maintain public confidence in the nation's financial system.

The objective of this audit is to determine whether asset management and disposition practices ensure that receivership assets are effectively managed, marketed, and sold to maximize returns.

Service Costing Billing Rates

The FDIC implemented the Service Costing System in January 2002 as a new method for billing receiverships for services provided by the FDIC in its corporate capacity. For the Service Costing System billing process to be successful, accurate billing rates need to be established for various receivership management activities, such as asset claims processing, receivership closing activities, asset sales, litigation, investigations, asset management, and financial services.

The overall objective of this audit is to assess the adequacy of the FDIC's process for developing service line billing rates for the Service Costing System. The scope of our audit work will cover the service line billing rates established by the FDIC for 2003. Specifically, we will determine whether: (1) established service line billing rates are fair and reasonable and (2) service line billing rates were accurately calculated and adequately supported.

Management and Security of Information Technology Resources

Information technology (IT) continues to play an increasingly greater role in every aspect of the FDIC mission. As corporate employees carry out the FDIC's principal business lines of insuring deposits, examining and supervising financial institutions, and managing receiverships, the employees rely on information and corresponding technology as an essential resource. Information and analysis on banking, financial services, and the economy form the basis for the development of public policies and promote public understanding and confidence in the nation's financial system. IT is a critical resource that must be safeguarded.

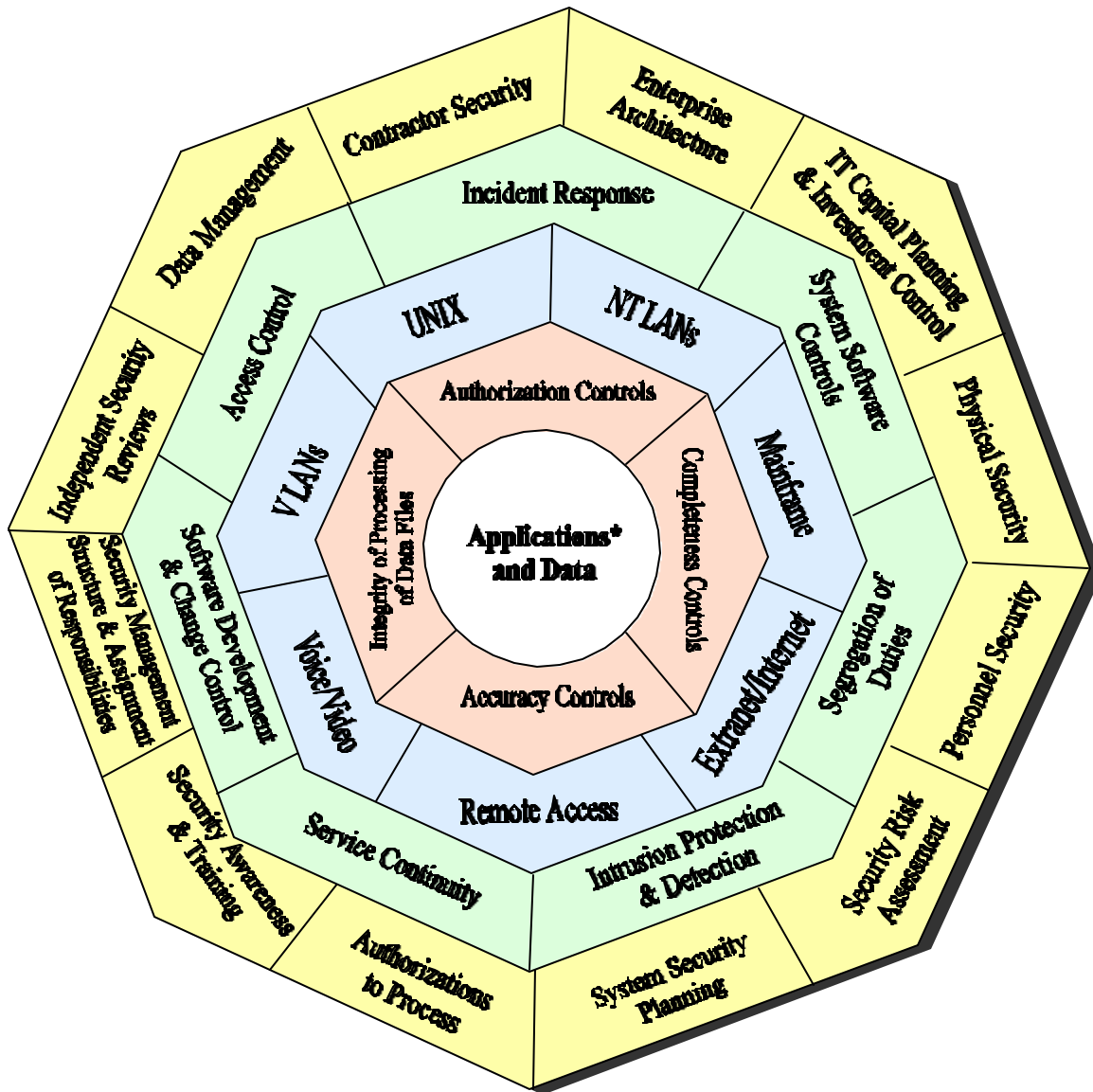
Accomplishing IT goals efficiently and effectively requires sound IT planning and investment control processes. The Corporation's 2003 IT budget is approximately \$171.9 million. The Corporation must constantly evaluate technological advances to ensure that its operations continue to be efficient and cost-effective and that it is properly positioned to carry out its mission. While doing so, the Corporation must continue to respond to the impact of laws and regulations on its operations. Management of IT resources and IT security have been the focus of several laws, such as the Paperwork Reduction Act, the Government Information Security Reform Act (GISRA), and, most recently, the Federal Information Security Management Act (FISMA) of 2002. Similar to the requirements of GISRA, under FISMA, each agency is required to report on the adequacy and effectiveness of information security policies, procedures, and practices and compliance with information security requirements.

The Corporation has worked to implement many sound information system security controls but has not yet fully integrated these into an entity-wide program. Additionally, continued attention is needed in efforts to identify sensitive data, plan for and fund essential security measures, incorporate security requirements in FDIC contracts, enhance software configuration management, and measure the overall performance of the information security program. Frequently, security improvements at the FDIC were the result of a reaction to specific audit and review findings, rather than the result of a comprehensive program that provided continuous and proactive identification, correction, and prevention of security problems. The OIG is aware that the Corporation is working to appoint a permanent Chief Information Officer (vacant since September 2001) to strengthen accountability and authority in the FDIC's information security program and to ensure that other key positions in the Division of Information Resources Management are filled permanently.

The FDIC's progress in addressing the security weaknesses identified in our 2001 Security Act evaluation report were offset by the emergence of new information security weaknesses identified during our 2002 evaluation, as well as the FDIC's internal evaluation completed on January 10, 2003. Thus, management and security of information technology resources continue to warrant management attention. The following graphic illustrates elements of the information security area that our work covers. The graphic depicts the overall FDIC environment, including entity-wide security practices, controls, systems, applications, and data.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes seven audits and two evaluations.

Information Security Environment



- Entity-Wide Security
- General Controls
- General Support Systems
- Controls Application
- Applications and Data

* As of July 1, 2003, there were nine major DIRM applications.

Call Modernization Project

The Federal Financial Institutions Examination Council (FFIEC) Call Agencies determined that a centralized data collection, validation, integration, and distribution process was necessary. The implementation of a Central Data Repository (CDR) that will use emerging technologies to effectively collect and process Call Report data is key to the new process. It will serve as a single source for all information related to Call Report processing and will serve as the source of record for Call Report data submitted by financial institutions. In May 2002, the FFIEC authorized the FDIC to issue a request for proposal to have a contractor design, implement, and host a new facility for Call Report and other bank regulatory reporting data.

The objective of the audit will be to determine whether the FDIC and the FFIEC have established a control framework for ensuring the delivery of a quality system that meets the FFIEC requirements and user needs in a timely and cost-effective manner.

Estimated Assignment Start: 1st Quarter FY 2004

Independent Evaluation of the FDIC's Information Security Program—2004

Protecting the integrity and confidentiality of sensitive information and ensuring its availability for authorized purposes requires a strong, enterprise-wide information security program that brings together both business and IT solutions. FISMA, Title III of H.R. 2458, *E-Government Act of 2002*, permanently authorized and strengthened the information security program, evaluation, and reporting requirements established by GISRA, which expired in November 2002. As with GISRA, federal agencies are responsible for performing annual reviews and independent evaluations of the adequacy and effectiveness of their information security programs and practices and must report the results to the Office of Management and Budget (OMB). The independent evaluations are to be performed by the agency's Inspector General, or by an independent external auditor as determined by the Inspector General.

The evaluation will rely primarily on OMB Circular No. A-130, Appendix III, as criteria for evaluating the adequacy of the FDIC's information security program. The 10 internal controls related to that program are:

1. FISMA Responsibilities and Authorities
2. Performance Measurement
3. Integration of Security Activities
4. Protection of Critical Assets and Operations
5. Incident Response Reporting
6. Risk Management
7. Contractor and Outside Agency Security
8. Security Oversight
9. Security Training
10. Capital Planning and Investment Control.

The objective of the review will be to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the requirements of FISMA and related information security policies, procedures, standards, and guidelines.

Estimated Assignment Start: 2nd Quarter FY 2004

Application Controls Over the Risk-Related Premium System

The FDIC Improvement Act of 1991 requires that the FDIC assess deposit insurance premiums based on the risks that institutions present to the deposit insurance funds. The legacy system called the Risk-Related Premium System (RRPS) obtains institutions' capital ratios and supervisory evaluation ratings and uses the semiannual risk classification schedule to calculate and store institutions' current risk ratings. RRPS computes risk ratings based on data from such sources as the Call Report, Thrift Financial Report, examination data, and input from headquarters. The Assessments Branch of the Division of Insurance and Research uses the risk rating information to determine the final assessment rate for deposit insurance premiums for each financial institution. When necessary, RRPS allows authorized Division of Supervision and Consumer Protection regional office personnel to override the supervisory ratings. The FDIC has identified this application as both a major application containing sensitive data and a critical system that must be restored within 72 hours should it go down. (This audit will be performed concurrently with the FDIC Risk-Related Premium System audit (see page 12) to minimize duplication of effort.)

The overall objective of the audit will be to determine whether the application controls (access, input, output, processing, and user support) are adequate to ensure reliability and integrity as well as prevent unauthorized activities.

Estimated Assignment Start: 3rd Quarter FY 2004

FDIC Certificate Authorities for Public Key Infrastructure

The FDIC is developing a Public Key Infrastructure (PKI) to provide encrypted solutions (consisting of products and services) for security of networked computer-based systems. Programs that carry out or support the mission of the FDIC require authentication, confidentiality, technical non-repudiation, and access control. Already, the FDIC uses digital certificates to provide authentication, encryption, and digital signing (non-repudiation) to its Electronic Travel Voucher Processing System, its Employee Supplemental Payment System, and its corporate e-mail solution (which is Microsoft Exchange). The FDIC also issues digital certificates to third-party federal agencies such as the Federal Reserve, Office of Comptroller of the Currency, U.S. Treasury, and various state Bank examiners. Employees of these third party agencies use their digital certificates to authenticate and access internal FDIC applications over the Web. The need for secure communications between federal government agencies has been a pressing issue. A Certificate Authority (CA) is an entity authorized by the FDIC Policy Management

Authority to create, sign, and issue public key certificates. The CA is tantamount to the successful operations of the process. The System Management Function includes the requirement for an annual compliance audit of the CA. The FDIC's Certificate Policy assigns the rights to perform annual compliance audits to the OIG and General Accounting Office (GAO).

The objective of this audit will be to verify that the CA has a system in place to ensure the quality of the CA services that it provides and that it complies with all of the requirements of the certificate policies and certification practice standards.

Estimated Assignment Start: 3rd Quarter FY 2004

DIRM's Telecommunications Program (Evaluation)

The Telecommunication Section within DIRM oversees significant elements of the FDIC's telecommunication program, such as local telephone service, equipment such as switches and trunk lines, video teleconferencing, and individual telephones. This evaluation would identify the Telecommunication Section's budget and program responsibilities and assess whether this program is being managed efficiently and effectively.

The objective of this evaluation will be to assess the effectiveness of the program and to determine whether telecommunication initiatives are responsive to corporate needs.

Estimated Assignment Start: 4th Quarter FY 2004

Application Controls for the Overarching Automation System

The FDIC's Division of Resolutions and Receiverships uses the Overarching Automation System (OASIS) to manage and support resolution activities and marketing functions. OASIS tracks pending and in-process resolution events; generates the list of prospective bidders; records the offered transactions, bids received, and winning bidders; manages personnel resources and projects; supports the marketing of the residual assets of failed institutions; and serves as a data mart for historical resolution information. The FDIC has identified OASIS as a mission-critical system that must be restored within 72 hours should it go down. Access control is provided by the FDIC Access Control Entry System.

The overall objective of the audit will be to determine whether the application controls (access, input, output, processing, and user support) are adequate to ensure reliability and integrity of data as well as prevent unauthorized activities.

Estimated Assignment Start: 4th Quarter FY 2004

Controls over the Corporate Human Resources Information System Release III

The Corporate Human Resources Information System (CHRIS) provides an integrated, automated system that supports the core human resource business functions and information requirements. CHRIS is an ongoing project to replace multiple standalone personnel systems with different databases with a single integrated system that has a common user interface and a centralized database. CHRIS development is now in phase III. CHRIS will also eventually provide the ability to transmit personnel and payroll data to the National Finance Center, which processes the FDIC's payroll. The FDIC has identified this application as a major application containing sensitive personnel data.

The overall objective of the audit will be to determine whether the access, input, output, and processing controls are adequate to ensure reliability and integrity as well as prevent unauthorized activities. We will also evaluate the adequacy of user and system problem resolution for CHRIS Release III.

Estimated Assignment Start: 4th Quarter FY 2004

FDIC's Capital Investment Management Review Process for Information Technology Initiatives (Evaluation)

The FDIC invests a significant amount of resources in IT each year. During 2002, DIRM's budget of \$187 million represented about 17 percent of the FDIC's corporate budget. Also in 2002, DIRM began managing its major capital investments through the Capital Investment Review Committee (CIRC). The CIRC implements a systematic management review process of FDIC capital initiatives exceeding \$3 million or meeting certain other criteria. The CIRC determines whether a proposed investment is appropriate for the FDIC Board of Director's consideration, oversees approved investments throughout the investments' life cycles, and provides quarterly reports to the Board of Directors.

The objective of this evaluation will be to determine whether the CIRC is implementing an efficient and effective review process that supports budgeting for the FDIC's IT capital investments and ensures the regular monitoring and proper management of these investments, once funded.

Estimated Assignment Start: 4th Quarter FY 2004

Controls over the Private Branch Exchange Communications System

The FDIC's Private Branch Exchange Communications System (PBX) network provides critical communications services such as local and long-distance voice and data communications for the Corporation. This facility provides toll free access, conferencing, answering services, and fax transmissions. The FDIC also offers cellular phones and pagers to employees on an as needed basis. The PBX operations are controlled by DIRM.

The objectives of this audit will be to evaluate the following controls over PBX and determine whether:

- monthly usage is reviewed to control costs,
- physical security controls are in place for the telecommunications facilities,
- logical and system security controls are in place to protect the PBX from unauthorized access,
- controls are in place for making changes to PBX configurations, software, and users,
- controls are in place to protect the PBX when problems are detected,
- emergency and business continuity procedures are in place and reliable, and
- adequate controls are in place to ensure the PBX meets business requirements.

Estimated Assignment Start: 4th Quarter FY 2004

Ongoing Assignment

Software Use and Licensing (Evaluation)

The FDIC has a number of software licenses for its many applications. The Corporation generally believes that standard software such as Windows Office Suite (including Word, Excel, and Access) are licensed properly. However, FDIC employees also have other specialized software such as Microsoft Project and Lotus Notes. It is important for the Corporation to have a full understanding of whether it is properly licensed for those types of software and whether it may be paying licensing fees for software that is not being used.

The objectives of this evaluation are to (1) determine what the FDIC spends to license non-standard or specialized software, (2) determine whether DIRM effectively monitors the utilization and licensing of non-standard or specialized software, (3) determine whether FDIC employees use software that is not properly licensed, and (4) analyze software usage and licensing costs and conclude whether the FDIC is paying too much for software that is not being used.

Security of Critical Infrastructure

The adequate security of our nation's critical infrastructures has been at the forefront of the federal government's agenda for many years. Specifically, the President's Commission on Critical Infrastructure Protection (established in July 1996) was tasked to formulate a comprehensive national strategy for protecting the nation's critical infrastructure from physical and "cyber" threats. Included among the limited number of systems whose incapacity or destruction were deemed to have a debilitating impact on the defense or economic security of the nation was the banking and finance system. With the increased consolidation and connectivity of the banking industry in the years since 1996, and with the new awareness of the nation's vulnerabilities to terrorist attacks since September 11, 2001, the security of the critical infrastructure in the banking industry is even more important.

On May 22, 1998, the Presidential Decision Directive (PDD) 63 was signed, calling for a national effort to ensure the security of the nation's critical infrastructures. PDD 63 defined the critical infrastructure as the "physical and cyber-based systems essential to the minimum operations of the economy and government." President Bush declared that securing our critical infrastructure is essential to our economic and national security and issued two Executive Orders (EO 13228, *The Office of Homeland Security and the Homeland Security Council*, and EO 23231, *Critical Infrastructure Protection in the Information Age*) to improve the federal government's critical infrastructure protection program in the context of PDD 63.

The intent of PDD 63 is to ensure that the federal government maintains the capability to deliver services essential to the nation's security and economy and to the health and safety of its citizens in the event of a cyber or physical-based disruption. Much of the nation's critical infrastructure historically has been physically and logically separate systems that had little interdependence. However, as a result of technology, the infrastructure has increasingly become automated and interconnected. These same advances have created new vulnerabilities to equipment failures, human error, and natural disasters as well as terrorism and cyber-attacks.

To effectively protect critical infrastructure, the FDIC's challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities. The FDIC will need to continue to work with the Department of Homeland Security and the Finance and Banking Information Infrastructure Committee created by Executive Order 23231 and chaired by the Department of the Treasury, on efforts to improve security of the critical infrastructure of the nation's financial system.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes one audit.

Implementation of Physical Security Policies

The primary purpose of providing reliable physical security policies is to protect FDIC employees, FDIC property, and the general public while in FDIC buildings or on FDIC grounds. Additionally, the prevention of infiltration of any FDIC property for subversive purposes is important given the close proximity of FDIC owned and leased property in Washington, D.C., to the White House and other key federal buildings. The OIG performed two evaluations of FDIC physical security in the wake of the September 11, 2001 tragedies.

The objectives of this audit will be to determine whether: (1) the recommended physical security policies have been implemented for FDIC owned and leased space in the Washington, D.C., and Virginia Square locations and (2) appropriate actions have been taken to implement earlier OIG security recommendations for selected regional locations.

Estimated Assignment Start: 1st Quarter FY 2004

Transition to a New Financial Environment

On September 30, 2002, the FDIC executed a multi-year contract to replace its core financial systems and applications with a commercial-off-the-shelf software package. The FDIC Board had previously approved contract expenditure authority for the New Financial Environment (NFE) project totaling approximately \$28.8 million. At the time the Board case was approved, the FDIC estimated the total life-cycle cost of NFE, including FDIC staff time, to be approximately \$62.5 million over 8 years. NFE is a major corporate initiative to enhance the FDIC's ability to meet current and future financial management and information needs.

Although NFE offers the FDIC significant benefits, it also presents significant challenges. These challenges will test the Corporation's ability to (1) maintain unqualified opinions on the FDIC's annual financial statements through the system implementation and associated business process reengineering; (2) manage contractor resources, schedules, and costs; and (3) coordinate with planned and ongoing system development projects related to NFE. Preliminary results of an ongoing audit found that the FDIC had established key management controls for the NFE project, but that opportunities for improvement existed in the areas of project integration, communications, and risk response planning. Overall, the FDIC needs to ensure that the NFE Project team successfully implements modern and reliable systems to improve financial business processes and support current and future financial management and information needs, while controlling costs for the new environment to the maximum extent possible.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes three audits.

NFE Development and Implementation

We intend to perform assignments of the NFE project at critical points in the development and implementation process. We will determine the objectives of these assignments as they are initiated, with the focus being evaluating the adequacy of controls to minimize risk to the Corporation and to ensure success of the project. Key aspects that we may review include but are not limited to:

- Requirements Traceability Matrix
- General System Design
- Business Process Reengineering
- NFE Testing
- Data Conversion for Absorbed Systems
- System User Training

Estimated Assignment Start: Various dates throughout FY 2004

FDIC's Management of NFE-Related Costs

The NFE project is to achieve efficiency by re-engineering existing financial business processes and leveraging new technology. The FDIC will need to determine the extent to which legacy system maintenance, upgrade, and enhancement costs—required for NFE compatibility or to leverage NFE capabilities—will be funded by the specific division or office or by the NFE project. The NFE contract provides for system implementation with 30 interfaces. Additional interfaces and system modifications may be fully or partially funded through a contract provision for task orders, through authorizations external to the NFE, or a combination of NFE and non-NFE funding.

The objective of this audit will be to determine whether the FDIC has implemented adequate controls for ensuring that NFE-related costs are accurately budgeted and tracked, and that any adjustments are properly evaluated and controlled.

Estimated Assignment Start: 1st Quarter FY 2004

Conversion of the Walker Financial Data to NFE

The NFE project involves implementing a new commercial-off-the-shelf (COTS) software package to replace the FDIC's current financial systems, which are based on the Walker Interactive Systems, Inc.'s Tamris software products. As part of the NFE implementation, in mid-2004, data from the Walker system must be converted to the PeopleSoft-based system. To accomplish the conversion, a crosswalk (data translation between two systems) must be developed. In addition, the use of the Walker software products and system must be suspended on a set date in order to establish fixed opening balances for the new system. The policies and procedures that clearly define the steps to (1) develop the crosswalk, (2) test the accuracy of the data and the crosswalk, and (3) establish the opening balances of accounts are critical to minimize errors or omissions resulting in delays and/or system failures.

The objective of this audit will be to determine whether adequate controls are in place to minimize errors and omissions during system conversion from the Walker financial applications to a PeopleSoft-based system.

Estimated Assignment Start: 3rd Quarter FY 2004

Assessment of Corporate Performance

The Government Performance and Results Act (Results Act) of 1993 was enacted to improve the efficiency, effectiveness, and accountability of federal programs by establishing a system for setting goals, measuring performance, and reporting on accomplishments. The Results Act requires most federal agencies, including the FDIC, to prepare a strategic plan that broadly defines each agency's mission, vision, and strategic goals and objectives; an annual performance plan that translates the vision and goals of the strategic plan into measurable annual goals; and an annual performance report that compares actual results against planned goals.

The Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas of Insurance, Supervision, and Receivership Management. The plans focus on four strategic goals that define desired outcomes identified for each program area: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) FDIC-Supervised Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance report, the FDIC is accountable for reporting actual performance and achieving these strategic goals.

The Corporation has made significant progress in implementing the Results Act and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other federal financial institution regulatory agencies.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes two evaluations.

Follow-Up Evaluation of the FDIC's Corporate Planning Cycle (Evaluation)

In July 2001, at the request of the former Chief Financial Officer (CFO), the OIG's Office of Audits and the FDIC's Office of Internal Control Management issued a joint study of the Corporate Planning Cycle (CPC). The CPC includes the planning, core staffing, and budgeting process. The study was performed to complement the Division of Finance's (DOF) review of the strategic planning, core staffing, budget formulation, and budget execution processes. The purpose of the study was to determine the extent of resources involved in carrying out and supporting the CPC and to identify opportunities to more effectively integrate and streamline these processes. In early 2003, the current CFO requested that the OIG conduct a follow-up evaluation in this area.

The objectives of this evaluation will be to: (1) determine, using the results of the 2001 CPC evaluation as a baseline, whether DOF has been successful in its efforts to reduce

resources dedicated to the CPC and in streamlining the CPC process and (2) assess the FDIC's success in integrating budget and performance goal information.

Estimated Assignment Start: 1st Quarter FY 2004

FDIC's Use of Performance Measures (Evaluation)

The Government Performance and Results Act (GPRA) of 1993 requires agencies to prepare strategic plans; develop annual performance plans with measurable, meaningful performance goals; and issue annual performance reports stating the agencies' success in meeting those goals. The purpose of the Act is to improve the efficiency, effectiveness, and public accountability of federal agencies as well as improve congressional decision-making. The FDIC Chairman has developed separate performance objectives for FDIC divisions and offices. These objectives are not always consistent with the FDIC's GPRA goals.

The objectives of this evaluation will be to (1) evaluate the FDIC's progress in using GPRA to manage performance and in communicating information to assist with congressional decision-making and (2) determine whether FDIC managers use GPRA information to manage their programs.

Estimated Assignment Start: 2nd Quarter FY 2004

Organizational Leadership and Management of Human Capital

The FDIC has been in a downsizing mode for the past 10 years as the workload from the banking and thrift crises of the late 1980s and 1990s has been accomplished. Over the past months, a number of division mergers and reorganizations took place, and the Corporation concluded its 2002 buyout/retirement incentive programs. These most recent incentive programs achieved a reduction of 699 staff and \$80 million projected savings in future operating costs. In total, over the past 10+ years, the workforce (combined from the FDIC and the Resolution Trust Corporation) has fallen from approximately 23,000 in 1992 to approximately 5,400 as of March 31, 2003.

By July 2003, the Corporation hopes to substantially complete required downsizing, identify an appropriate skills mix, and correct any existing skills imbalances. To do so, the Corporation continues to carry out other features of its comprehensive program such as solicitations of interest, reassignments, retraining, outplacement assistance, and possible reductions-in-force. The Corporation has also predicted that almost 20 percent of FDIC employees will be eligible to retire within the next 5 years. As the Corporation adjusts to a smaller workforce, it must continue to ensure the readiness of its staff to carry out the corporate mission.

The Corporation must also work to fill key vacancies in a timely manner, engage in careful succession planning, and continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years. A need for additional outsourcing may arise and hiring and retaining new talent will be important. Hiring and retention policies that are fair and inclusive must remain a significant component of the corporate diversity plan. Designing, implementing, and maintaining effective human capital strategies are critical priorities and must be the focus of centralized, sustained corporate attention.

A significant element of this performance and management challenge relates to organizational leadership at the FDIC Board of Directors level, specifically, with respect to the current make-up of the Board. The Board is a body whose strong leadership is vital to the success of the agency and to the banking and financial services industry. The Board is composed of five directors, including the FDIC Chairman, two other FDIC directors, the Comptroller of the Currency, and the Director of the Office of Thrift Supervision. To ensure that the balance between various interests implicit in the Board's structure is preserved, the Board should operate at full strength. However, the Board has been operating with an FDIC Director vacancy since September 1998. Although the President has nominated someone for this position, the candidate has not yet been confirmed. Accordingly, the OIG has urged that vacancies on the Board be filled as promptly as practicable in order to afford the FDIC the balanced governance and sustained leadership essential to the agency's continued success.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes one evaluation.

Evaluation of Human Capital (Evaluation)

Managing human capital continues to be a challenge for all federal agencies. In 2001, the GAO added human capital management to the government-wide “high-risk list” of federal activities. In 2000, the President’s Management Agenda (PMA) included the Strategic Management of Human Capital as one of five government-wide initiatives. The PMA referenced the GAO’s work in the area and noted that by 2010, over 70 percent of the government’s employees will be eligible for either regular or early retirement and 40 percent are expected to retire. Finally, in late 2002, the GAO reported key practices for the effective use of human capital flexibilities, such as work-life programs, as being essential to acquiring, developing, and retaining highly qualified federal employees.

A series of reviews in this area is envisioned. In July 2003, we initiated a Corporate-wide inventory of the FDIC's various human capital-related initiatives to gauge where the Corporation stands in relation to other best practices agencies and to establish a baseline for measuring future improvements. The overarching objective of this evaluation is to assess whether FDIC's human capital initiatives are strategically aligned with the Chairman's objectives.

Follow-on evaluations to be conducted during FY 2004 may focus on these areas:

- Analyzing the impact of FDIC downsizing initiatives on human capital management—including planned and actual staffing imbalances and reported cost savings.
- Reviewing the Corporation’s success in identifying competencies, skills gaps, and strategies for addressing those gaps.
- Assessing FDIC’s efforts and resources expended to develop the Corporate University.
- Assessing the success of other FDIC work-life initiatives in acquiring and retaining highly qualified employees.

Estimated Assignment Start: 2nd Quarter FY 2004

Ongoing Assignment

Evaluation of FDIC's Human Capital-Related Initiatives (Evaluation)

The objectives of this evaluation are to (1) conduct a corporate-wide inventory of the FDIC's various human capital-related initiatives to gauge where the Corporation stands in relation to other agencies’ best practices and to establish a baseline for measuring future improvements and (2) assess whether FDIC's human capital initiatives are strategically aligned with the Chairman's objectives and the Corporation's performance goals and objectives.

Cost Containment and Procurement Integrity

As steward for the Bank Insurance Fund and Savings Association Insurance Fund, the FDIC seeks ways to limit the use of those funds. Therefore, the Corporation must continue to identify and implement measures to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency. Many of the efforts described earlier as part of other management and performance challenges (e.g., NFE, service costing, corporate downsizing) attest to the Corporation's ongoing efforts to contain and reduce costs.

A key challenge to containing costs relates to the contracting area. To assist the Corporation in accomplishing its mission, contractors provide services in such areas as information technology, legal matters, loan servicing, and asset management. To achieve success in this area, the FDIC must ensure that its acquisition framework—that is, its policies, procedures, and internal controls—is marked by sound planning; consistent use of competition; fairness; well-structured contracts designed to produce cost-effective, quality performance from contractors; and vigilant contract management and oversight.

The Corporation has taken a number of steps to strengthen internal control and effective oversight. However, our work in this area continues to show that further improvements are necessary to reduce risks such as the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, and oversight of contractor security practices. Other risks include corporate receipt of billings for such items as unauthorized subcontractors, unallowable subcontractor markups, incorrect timesheets, unreasonable project management hours billed, conflicts of interest, and unauthorized labor categories. The combination of increased reliance on contractor support and continuing reductions in the FDIC workforce presents a considerable risk to the effectiveness of contractor oversight activities. Additionally, large-scale procurements, such as Virginia Square Phase II (a \$111 million construction project to house FDIC staff for the most part now are working in leased space in the District of Columbia) and NFE necessitate continued emphasis on contractor oversight activities.

To accomplish our work in the risk area discussed above, our Assignment Plan for FY 2004 includes eight (or more) reviews and audits.

Contract Pre-Award Reviews

The purpose of conducting pre-award reviews is to help ensure that the FDIC is complying with the Acquisition Policy Manual or to assist with the evaluation of bidders' proposals during the course of a procurement action. The scope of these reviews can include any and all aspects of a procurement action that occur prior to award, including the pre-solicitation, solicitation, and proposal evaluation phases.

The objectives of these reviews can include (1) determining whether the FDIC has complied with its Acquisition Policy Manual in evaluating proposals and (2) assessing financial aspects of bidders' proposals or internal controls to identify risk to the FDIC.

Estimated Assignment Start: Various dates throughout FY 2004

Contractor Billing Reviews

Contractor billing reviews help ensure that amounts paid by the FDIC are proper in relation to the terms and conditions of a contract. These reviews can result in monetary benefits to the FDIC through recovery of amounts paid and the avoidance of unnecessary expenditures on open contracts. In addition, the completion of a number of these reviews may identify common underlying causes that could result in OIG recommendations to improve the contract award and oversight processes.

The objectives of these reviews include determining whether amounts billed are allowable, allocable, and reasonable in accordance with the terms and conditions of a particular contract.

Estimated Assignment Start: Various dates throughout FY 2004

Management of the Virginia Square Phase II Building Project

The FDIC intends to build an office building and special-purpose facility at Virginia Square, in Arlington County, Virginia. The project, referred to as Phase II, will be constructed on land owned by the FDIC and will connect to the existing FDIC office building that was completed in 1991 (referred to as Phase I). On March 22, 2002, the FDIC Board of Directors authorized \$106.5 million for the design and construction of the Virginia Square Phase II Building Project to occur over a 4-year period from 2002 through 2005. This one-time project represents a significant undertaking by the FDIC. If not properly managed, unfavorable changes in costs, quality, and time schedules may be incurred.

The objective of this audit will be to determine whether the FDIC is adequately overseeing and monitoring contractors to minimize the risks associated with changes in costs, quality, and time schedules.

Estimated Assignment Start: 1st Quarter FY 2004

Acquisition Planning

The FDIC Division of Administration's (DOA) Acquisition Services Branch (ASB) is responsible for issuing contracts for goods and services. During the presolicitation phase, activities involving requirements planning and the development and completion of a requirements package begin. The requirements package includes the statement of work with detailed price estimates and all other documents necessary for ASB to develop the

necessary solicitation package, including the evaluation criteria and appropriate contract type. The FDIC's Acquisition Policy Manual (APM) contains guidance related to the solicitation and award of contracts for goods and services between the FDIC and private sector firms to obtain the best value for the FDIC.

The objectives of this audit will be to determine whether the APM guidance has been applied to: (1) select the appropriate type of contract (fixed price, labor hours, performance or some combination) to fulfill the FDIC's requirements and (2) prepare a statement of work that contains an adequate definition of the scope of work, the deliverables, and other requirements necessary to fulfill the FDIC's needs.

Estimated Assignment Start: 1st Quarter FY 2004

Dental Insurance Eligibility

The FDIC's dental insurance program is the only FDIC employee benefit that fits within the Financial Accounting Standards Board's Statement 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, criteria for a post-retirement benefit. The current arrangement is for employees and retirees to receive dental insurance at no current or future cost to the employee. The plan is underwritten by Connecticut General Life Insurance Company and the FDIC bears the entire cost of premium expenses. FDIC policy determines employee, retiree, or other departing FDIC employee eligibility and duration of coverage. The Division of Administration Benefits Section is responsible for reviewing/approving Connecticut General dental insurance premium billings. As an integral part of that billing activity, the FDIC needs to monitor ongoing changes in eligibility to ensure that the FDIC is only paying insurance premiums for covered individuals.

The objective is to determine whether the FDIC's dental insurance eligibility records accurately reflect the current and prior FDIC employees entitled to dental insurance coverage under FDIC policy.

Estimated Assignment Start: 1st Quarter FY 2004

Contract Management and Oversight Processes

The FDIC's DOA administers the FDIC's decentralized contracting system through which the FDIC acquires goods and services. Contract administration involves Contracting Officers, Oversight Managers, Technical Monitors, Office of Internal Control Management oversight, OIG audits, and FDIC Board review in the case of larger acquisitions requiring Board approval. Inadequate or improper contract oversight management or contract administration can result in the FDIC paying for services not received as intended in contractual agreements.

A series of audits in this area may focus on contracts of a specific type, contracts within a specific FDIC division, or contracts at a particular location. The audit objectives will likely include one or more of the following:

- Determine whether the FDIC's oversight managers are adequately overseeing contracts and complying with the APM.
- Determine whether DOA's ASB is adequately administering contracts in accordance with the APM.
- Determine whether regional contract oversight and contract administration activities are being performed in accordance with the APM.

Estimated Assignment Start: 3rd Quarter FY 2004

Cash Disbursement Process

The U.S. Department of the Treasury's Financial Management Service (FMS) has implemented a new Internet system (Intra-governmental Payment and Collections, or IPAC) for making interagency payments and collections for goods, services, and investment activity. IPAC replaced the Online Payment and Collection system and enables real time processing of transactions. The new system will be operated for FMS by the Federal Reserve Bank of Richmond and will feature improved user access controls and expanded transaction history.

The objective of this audit will be to determine whether adequate internal controls exist over large cash disbursements, especially those made through wire transfers and interagency allocations.

Estimated Assignment Start: 3rd Quarter FY 2004

Implementation of E-Government Principles

The FDIC has been working on an E-business strategic plan and *FDICconnect*, an Internet site to facilitate business and exchange information between the FDIC and its insured institutions. The Government Paperwork Elimination Act (GPEA) requires federal agencies to allow individuals or entities that deal with agencies the option to submit information or transactions electronically and to maintain records electronically by October 21, 2003, when practicable. The 2002 President's Management Agenda identified expanded electronic government as a government-wide initiative.

The objectives of this audit will be to determine whether the FDIC has: (1) adequately implemented E-Government principles in its operations and in its information exchange with insured financial institutions and (2) complied with applicable portions of GPEA.

Estimated Assignment Start: 4th Quarter FY 2004

Ongoing Assignments

Contractor Billing Reviews (Multiple)

The objective of these reviews is to determine whether amounts billed are allowable, allocable, and reasonable in accordance with the terms and conditions of a particular contract.

FDIC's Use of Consultants (Evaluation)

The FDIC enters into contracts with consultants for various initiatives and programs—from designing workstations for FDIC office space to developing strategic plans and IT systems. In some instances, the FDIC engages multiple consultants to review the same issue. As part of our evaluation, we will determine the number of and dollars spent on consultants providing services to the FDIC.

The objective of this evaluation is to determine the number of consultants that the FDIC engages, contracting funds that the FDIC spends on consulting engagements, and purposes for which the FDIC engages consultants. We may also attempt to identify programs or initiatives for which the FDIC has hired multiple consultants and the frequency with which the FDIC implements or uses consultant recommendations.

Other

In addition to audits, evaluations, and other reviews, the Office of Audits expends resources on other important matters as warranted. The following project reflects our work planned for the annual audits of the FDIC's Financial Statements.

Ongoing Assistance

Assistance on the Audits of the FDIC's 2003 Financial Statements

The annual audits of the FDIC's financial statements require extensive use of database analysis, cyclical retrievals, statistical sampling, and data integrity testing. For the audits of the FDIC's calendar year 2003 financial statements, the OIG is assisting the GAO by providing data collection support in the following financial statement areas: operating expenses and allocations, anticipated failures, receivables, loan loss reserve, sensitive payments, contingent liabilities for anticipated failures, account reconciliations, and database security analyses.

Appendix: Assignments by Directorate

Supervision & Insurance Directorate

Michael Lombardi, Director; 202-416-2431

1. Material Loss Reviews (Page 5)
2. Examination Assessment of Management (Page 5)
3. Effectiveness of Supervisory and Enforcement Actions (Page 5)
4. Implementation of the Sarbanes-Oxley Act (Page 6)
5. Minority Depository Institutions Program (Page 6)
6. DSC's Efforts to Address Data Security for Customer Information (Page 8)
7. FDIC's Risk-Focused Compliance Examination Function (Page 9)
8. Examination Assessment of Capital (Page 12)
9. Shared National Credits Program (Page 12)
10. FDIC Risk-Related Premium System (Page 12)
11. Assessment of International Lending Risks (Page 13)
12. DSC's Delegations of Authority to Regional and Field Offices (Page 13)

Resolution, Receivership, & Legal Services Directorate

Bruce Gimbel, Director; 202-416-2587

1. Marketing of Failing Insured Depository Institutions (Page 15)
2. Retention Strategies for Failed Insured Depository Institution Employees (Page 16)
3. Insured Depository Institution Closing Procedures (Page 16)
4. Asset Write-Offs from Failed Insured Depository Institutions (Page 16)
5. Proceeds from Securitization Close-Outs (Page 17)
6. Receivership Dividend Payments (Page 17)
7. DRR's Management of Receivership Subsidiary Assets (Page 17)

Information Assurance Directorate

Benjamin Hsiao, Director; 202-416-2117

1. Call Modernization Project (Page 21)
2. Independent Evaluation of the FDIC's Information Security Program—2004 (Page 21)
3. Application Controls over the Risk-Related Premium System (Page 22)
4. FDIC Certificate Authorities for Public Key Infrastructure (Page 22)
5. Application Controls for the Overarching Automation System (Page 23)
6. Controls over the Corporate Human Resources Information System Release III (Page 24)
7. Controls over the Private Branch Exchange Communications System (Page 24)
8. NFE Development and Implementation (Page 28)
9. FDIC's Management of NFE-Related Costs (Page 29)
10. Conversion of the Walker Financial Data to NFE (Page 29)

Resources Management Directorate

Marilyn Kraus, Director; 202-416-2426

1. Implementation of Physical Security Policies (Page 27)
2. Contract Pre-Award Reviews (Page 34)
3. Contractor Billing Reviews (Page 35)
4. Management of the Virginia Square Phase II Building Project (Page 35)
5. Acquisition Planning (Page 35)
6. Dental Insurance Eligibility (Page 36)
7. Contract Management and Oversight Processes (Page 36)
8. Cash Disbursement Process (Page 37)
9. Assessments Process and the Reserve Ratio (Page 14)
10. Implementation of E-Government Principles (Page 37)

Corporate Evaluations Directorate

Marshall Gentry, Director; 202-416-2919

1. Supervision of Industrial Loan Corporations (Page 11)
2. Follow-up Evaluation of the FDIC's Corporate Planning Cycle (Page 30)
3. FDIC's Use of Performance Measures (Page 31)
4. Evaluation of Human Capital (Page 33)
5. FDIC's Efforts to Increase Depositor Awareness (Page 9)
6. DIRM's Telecommunications Program (Page 23)
7. FDIC's Capital Investment Management Review Process for Information Technology Initiatives (Page 24)